

VILLAGE OF FIFE LAKE, MICHIGAN

FEBRUARY 29, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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VILLAGE OF FIFE LAKE, MICHIGAN

FEBRUARY 29, 2008

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September 26, 2008

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Fife Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Fife Lake, Michigan, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Fife Lake, Michigan's, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the complete financial data of the Village's component unit, the Downtown Development Authority, which should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the basic financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position, of the governmental activities, the business-type activities and each major fund of the Village of Fife Lake, Michigan, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, on our consideration of the Village of Fife Lake's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Fife Lake, Michigan, basic financial statements. The individual fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

VILLAGE OF FIFE LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

Management's Discussion and Analysis

The management of the Village of Fife Lake, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$711,101 (shown as *Net Assets*), representing an increase of \$35,739 over the previous fiscal year. Governmental Funds represented all of this increase.

Fund Level Financial Highlights

- ❖ As of February 29, 2008, the governmental funds of the Village of Fife Lake reported combined ending fund balances of \$223,860, all of which \$223,860 is unreserved.
- ❖ The unreserved fund balance of the Village's General Fund increased this year to \$146,113, or 121.1% of total general fund expenditures.

Long-Term Debt

- ❖ At February 29, 2008, the Village is not obligated for any long-term debt.

Overview of the Financial Statements

The Village of Fife Lake's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

The *Statement of Net Assets* (Page 1) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* (Page 2) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, major and local streets, public works, recreation and culture.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund and Local Street Fund. The major Proprietary Fund is the Equipment Fund. Presentation of major funds can be found on pages 22-34 of this document.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of Fife Lake uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Schedule of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not

VILLAGE OF FIFE LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the special revenue funds.

Proprietary Funds Proprietary funds account for services for which the Village charges its customers for the services they are provided. These charges can be to external customers or other agencies within the Village. Internal Service funds are one type of proprietary funds:

- ❖ These Funds provide services to other departments within the village. This fund allows the Village to allocate costs of centralized services such as the Village's vehicles and equipment. The Village has one internal service fund, which is the Equipment Fund.

Component Units The Village's Comprehensive Annual Financial Report includes reporting on separate legal entities for which the Village has some level of financial responsibility. The Village's only component unit is the Downtown Development Authority. The Downtown Development Authority is not included in this report.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 10 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements. This information can be found beginning on Page 21 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$711,101 at February 29, 2008, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A useful comparative analysis will be presented in future years when the information is available.

VILLAGE OF FIFE LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

Village of Fife Lake
Net Assets
As of February 29, 2008

	Governmental Activities
Assets	
Current Assets	\$ 341,933
Capital Assets	<u>371,899</u>
Total Assets	<u><u>\$ 713,832</u></u>
Liabilities	
Current Liabilities	<u>\$ 2,731</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	371,899
Unrestricted	<u>339,202</u>
Total Net Assets	<u>711,101</u>
Total Liabilities and Net Assets	<u><u>\$ 713,832</u></u>

The majority of the Village's Net Assets are comprised of \$371,899 invested in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Village used to acquire or construct the asset. The Village has \$339,202 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The total net assets of the Village increased \$35,739 in this fiscal year, which is a good indicator that the Village experienced positive financial growth during the year. As a result, the Village ended the fiscal year in better condition than when the year started.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.

VILLAGE OF FIFE LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

Village of Fife Lake
Change in Net Assets
For the Fiscal Year Ended February 29, 2008

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 5,440
Operating Grants and Contributions	51,892
General Revenues	
Property Taxes	99,158
State Shared Revenue	44,047
Unrestricted Investment Earnings	4,573
Other	83
Total Revenues	<u>205,193</u>
<u>Expenses</u>	
Legislative	16,309
General Government	42,063
Public Works	85,782
Community and Economic Development	4,787
Recreation and Culture	13,317
Other Function	4,511
Unallocated Depreciation	2,685
Total Expenses	<u>169,454</u>
Change in Net Assets	35,739
<u>NET ASSETS</u> - Beginning of Year	<u>675,362</u>
<u>NET ASSETS</u> - End of year	<u><u>\$ 711,101</u></u>

Governmental Activities

One significant portion of the revenue for all governmental activities of the Village of Fife Lake comes from Property Taxes (48.32%). The Village's operating millage was 9.7258 mills. The Village's charter allows the Village to levy up to 15.00 mills for operations.

VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2008, the amount of state shared revenue received by the Village once again trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Village's governmental activities expenses are dominated by the Public Works expenses that total 50.62% of total expenses. The Village spent \$85,782 in FY2008 on Public Works. General Government represented the next largest expense at \$42,063 or 24.82% of total expenses within the governmental activities.

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the Village's fiscal year ended February 29, 2008, its governmental funds reported fund balances of \$223,860, all of which is unreserved.

General Fund – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$5,184, bringing the balance to \$146,113. Unreserved fund balance increased by \$5,184. All of the General Fund's major functions with the exception of Public Works ended the year with expenditures below appropriated amounts.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$63,014. This was a decrease of \$253 from the previous year.

Local Street Fund – The fund balance of this fund is at \$14,733, an increase of \$10,636, during this fiscal year.

Proprietary Funds The Village's proprietary fund provides virtually the same information as the government-wide statements; however, more detail may be found in the fund financial statements.

Equipment Fund – The Equipment Fund ended this fiscal year with \$141,463 in unrestricted net assets. The net assets of the fund increased by \$8,858 in 2008. This fund remains in sound fiscal condition moving forward.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for the governmental and business-type activities as of February 29, 2008, amounted to \$371,899 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

VILLAGE OF FIFE LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

Village of Fife Lake
Capital Assets as of February 29, 2008

	Governmental Activities
Land	\$ 40,279
Buildings	134,250
Public Domain Infrastructure	247,715
Machinery and Equipment	142,695
Subtotal	564,939
Less: Accumulated Depreciation	193,040
Net Capital Assets	\$ 371,899

Additional information regarding the Village's capital assets can be found in the Notes to Financial Statements section on pages 10-20.

Long-Term Debt. As of February 29, 2008, the Village had no long-term debt.

Contacting the Village's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Fife Lake, P.O. Box 298, Fife Lake, Michigan 49663, or call us at (231) 879-4291.

VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 29, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 325,112
Taxes Receivables	794
Due from Other Governmental Units	<u>16,027</u>
Total Current Assets	<u>341,933</u>
<u>CAPITAL ASSETS</u>	
Land	40,279
Buildings	134,250
Public Domain Infrastructure	247,715
Machinery and Equipment	<u>142,695</u>
	564,939
Less Accumulated Depreciation	<u>193,040</u>
Net Capital Assets	<u>371,899</u>
 TOTAL ASSETS	 <u><u>\$ 713,832</u></u>
 <u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Withholdings Payable	\$ 2,052
Accrued Taxes Payable	<u>679</u>
Total Current Liabilities	<u>2,731</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	371,899
Unrestricted	<u>339,202</u>
 TOTAL NET ASSETS	 <u>711,101</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 713,832</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 29, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 16,309	\$ 0	\$ 0	\$ 0	\$ (16,309)
General Government	42,063	4,913	0	0	(37,150)
Public Works	85,782	0	51,630	0	(34,152)
Community and Economic Development	4,787	0	0	0	(4,787)
Recreation and Cultural	13,317	0	262	0	(13,055)
Other Functions	4,511	527	0	0	(3,984)
Unallocated Depreciation	2,685	0	0	0	(2,685)
Total Governmental Activities	\$ 169,454	\$ 5,440	\$ 51,892	\$ 0	(112,122)

GENERAL REVENUES

Property Taxes	99,158
State Shared Revenue	44,047
Unrestricted Investment Earnings	4,573
Other	83
Total General Revenues	<u>147,861</u>
Change in Net Assets	35,739
<u>NET ASSETS</u> - Beginning of Year	<u>675,362</u>
<u>NET ASSETS</u> - End of Year	<u>\$ 711,101</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
FEBRUARY 29, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTAL
<u>ASSETS</u>				
Cash				
Petty Cash	\$ 100	\$ 0	\$ 0	\$ 100
Checking	94,011	0	0	94,011
Money Market Account	39,187	57,918	11,187	108,292
Certificates of Deposit	2,313	0	0	2,313
Taxes Receivable	794	0	0	794
Due from Other Funds	5,277	0	127	5,404
Due from Other Governmental Units	7,162	5,361	3,504	16,027
TOTAL ASSETS	<u>\$ 148,844</u>	<u>\$ 63,279</u>	<u>\$ 14,818</u>	<u>\$ 226,941</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 0	\$ 265	\$ 85	\$ 350
Payroll Withholdings Payable	2,052	0	0	2,052
Accrued Taxes Payable	679	0	0	679
Total Liabilities	<u>2,731</u>	<u>265</u>	<u>85</u>	<u>3,081</u>
 <u>FUND BALANCE</u>				
Unreserved:				
Undesignated	<u>146,113</u>	<u>63,014</u>	<u>14,733</u>	<u>223,860</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 148,844</u>	 <u>\$ 63,279</u>	 <u>\$ 14,818</u>	 <u>\$ 226,941</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FEBRUARY 29, 2008

Total Fund Balances for Governmental Funds	\$ 223,860
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 40,279	
Buildings	134,250	
Public Domain Infrastructure	247,715	
Accumulated Depreciation	<u>(76,466)</u>	345,778

Internal service funds are used by management to charge costs of
certain activities, such as equipment use, to individual funds.

The assets and liabilities of the internal service funds are
included in governmental activities in the Statement of
Net Assets.

	<u>141,463</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES

	<u><u>\$ 711,101</u></u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED FEBRUARY 29, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTAL
<u>REVENUES</u>				
Taxes	\$ 99,158	\$ 0	\$ 0	\$ 99,158
Licenses and Permits	4,913	0	0	4,913
Federal Grants	5,613	0	0	5,613
State Grants	44,047	29,514	16,503	90,064
Contributions from Local Units	262	0	0	262
Interest and Rents	3,832	1,046	222	5,100
Other Revenue	83	0	0	83
Total Revenues	157,908	30,560	16,725	205,193
<u>EXPENDITURES</u>				
Legislative	16,309	0	0	16,309
General Government	43,391	0	0	43,391
Public Works	36,867	23,313	45,689	105,869
Community and Economic Development	4,787	0	0	4,787
Recreation and Cultural	14,759	0	0	14,759
Other Functions	4,511	0	0	4,511
Total Expenditures	120,624	23,313	45,689	189,626
Excess (Deficiency) of Revenues Over Expenditures	37,284	7,247	(28,964)	15,567
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	0	0	39,600	39,600
Operating Transfers Out	(32,100)	(7,500)	0	(39,600)
Total Other Financing Sources (Uses)	(32,100)	(7,500)	39,600	0
Net Change in Fund Balances	5,184	(253)	10,636	15,567
<u>FUND BALANCES</u> - Beginning of Year	140,929	63,267	4,097	208,293
<u>FUND BALANCES</u> - End of Year	\$ 146,113	\$ 63,014	\$ 14,733	\$ 223,860

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 29, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 15,567
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	(7,513)
Capital Outlay	18,827
Internal service funds are used by management to charge costs of equipment use to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities.	<u>8,858</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 35,739</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
PROPRIETARY FUND

STATEMENT OF NET ASSETS
FEBRUARY 29, 2008

	<u>EQUIPMENT FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	
Money Market	\$ 55,826
Certificate of Deposit	<u>64,570</u>
Total Current Assets	<u>120,396</u>
<u>CAPITAL ASSETS</u>	
Machinery and Equipment	142,695
Less Accumulated Depreciation	<u>(116,574)</u>
Net Capital Assets	<u>26,121</u>
<u>TOTAL ASSETS</u>	<u><u>\$ 146,517</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
Due to General Fund	<u>\$ 5,054</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	26,121
Unrestricted	<u>115,342</u>
Total Net Assets	<u>141,463</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u><u>\$ 146,517</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED FEBRUARY 29, 2008

	<u>EQUIPMENT FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	<u>\$ 34,118</u>
<u>OPERATING EXPENSES</u>	
Administrative and General	3,969
Plant	<u>25,017</u>
Total Operating Expenses	<u>28,986</u>
Operating Income (Loss)	<u>5,132</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Income	3,726
Interest Expense	<u>0</u>
Total Nonoperating Revenues (Expenses)	<u>3,726</u>
Change in Net Assets	8,858
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>132,605</u>
<u>TOTAL NET ASSETS</u> -End of Year	<u><u>\$ 141,463</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN
PROPRIETARY FUND

STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 29, 2008

	<u>EQUIPMENT FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$ 39,172
Cash Payments to Suppliers for Goods and Services	(15,688)
Cash Payments to Employees for Services	<u>(5,132)</u>
Net Cash Provided (Used) by Operating Activities	18,352
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(14,832)
Cash Flows from Investing Activities:	
Interest on Investments	<u>3,726</u>
Net Increase in Cash and Cash Equivalents	7,246
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>113,150</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 120,396</u></u>
<u>RECONCILIATION OF OPERATING INCOME</u>	
<u>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	<u>\$ 5,132</u>
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	8,166
Increase (Decrease) in Current Liabilities	
Due to General Fund	<u>5,054</u>
Total Adjustments	13,220
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 18,352</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Fife Lake, Michigan, was organized in 1889 and covers an area of approximately one square mile. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. These financial statements do not include the financial data of the Village's Downtown Development Authority.

B. Government-Wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of Fife Lake reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The Village of Fife Lake reports the following major proprietary fund:

The *Equipment Fund* accounts for operations that provide equipment use to other departments of the government on a cost-reimbursement basis.

Additionally the Village of Fife Lake reports the following fund types:

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Equipment Fund are charges to other departments for equipment use. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

The investment policy adopted by this Village states that the Village Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- a. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- c. In commercial paper rated prime at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service. In mutual funds composed of investment vehicles which are legal for direct investment of local units of government in Michigan.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.54789, 15 U.S.C.80a-1 to U.S.C.80a-3 and 80e-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the village treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- h. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. Village taxes are levied and due July 1, and become delinquent after September 14. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of the Village of Fife Lake totaled \$11,433,080, on which ad valorem taxes levied consisted of 9.7258 mills for the Village of Fife Lake. This levy raised \$111,194 in tax of which \$12,251 was captured by the Downtown Development Authority leaving \$98,943 for Village operating purposes.

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	20-50
Building improvements	20
Land Improvements	20
Public domain infrastructure	50
System infrastructure	30
Equipment	5-10

5. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF FIFE LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end.

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to March 1, the clerk submits, to the Village Council, proposed operating budgets for all funds of the Village for the fiscal year
2. The Village Council adopts a resolution approving the budgets.
3. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council.
4. During the year, the budget is monitored and amendments to the budget are made when it is deemed necessary.
5. Budget amounts as presented are as originally adopted on February 5, 2007, or as amended by the Village Council from time to time throughout the year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Excess of expenditures over appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund – Public Works	\$ 36,013	\$ 36,867

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Investment rate risk. The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

Foreign currency risk. The Village is not authorized to invest in investments, which have this type of risk.

Credit risk. The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

Concentration of credit risk. The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 29, 2008, none of the government's bank balance of \$328,711 was exposed to custodial credit risk because it is covered by federal depository.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

	General	Major Street	Local Street	Total
Receivables				
Taxes	\$ 794	\$ 0	\$ 0	\$ 794
Intergovernmental	7,162	5,361	3,504	16,027
Receivables	<u>\$ 7,956</u>	<u>\$ 5,361</u>	<u>\$ 3,504</u>	<u>\$ 16,821</u>

By ordinance, the Village can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 40,279	\$ 0	\$ 0	\$ 40,279
Capital Assets, Being Depreciated				
Buildings	134,250	0	0	134,250
Public Domain Infrastructure	228,888	18,827	0	247,715
Machinery and Equipment	127,863	14,832	0	142,695
Total Capital Assets, Being Depreciated	<u>491,001</u>	<u>33,659</u>	<u>0</u>	<u>524,660</u>
Less Accumulated Depreciation For:				
Buildings	68,443	2,685	0	71,128
Public Domain Infrastructure	510	4,828	0	5,338
Machinery and Equipment	108,408	8,166	0	116,574
Total Accumulated Depreciation	<u>177,361</u>	<u>15,679</u>	<u>0</u>	<u>193,040</u>
Total Capital Assets, Being Depreciated, Net	<u>313,640</u>	<u>17,980</u>	<u>0</u>	<u>331,620</u>
Governmental Activities Capital Assets, Net	<u>\$ 353,919</u>	<u>\$ 17,980</u>	<u>\$ 0</u>	<u>\$ 371,899</u>

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government

Public Works	\$ 12,994
Unallocated	<u>2,685</u>
	<u><u>\$ 15,679</u></u>

Construction Commitments:

None.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at February 29, 2008, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
General Fund	\$ 5,277	\$ 0
Special Revenue Funds		
Major Street Fund	0	265
Local Street Fund	127	85
Proprietary Fund		
Equipment Fund	<u>0</u>	<u>5,054</u>
	<u><u>\$ 5,404</u></u>	<u><u>\$ 5,404</u></u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund Transfers as of February 29, 2008, were:

<u>Primary Government</u>	<u>TRANSFERS IN</u>	<u>OUT</u>
General Fund	\$ 0	\$ 32,100
Major Street Fund	0	7,500
Local Street Fund	<u>39,600</u>	<u>0</u>
	<u><u>\$ 39,600</u></u>	<u><u>\$ 39,600</u></u>

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

E. Long-Term Debt

At February 29, 2008, the Village was not obligated for any long-term debt.

IV. OTHER INFORMATION

A. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Village participates in a pool of municipalities with the State of Michigan for self-insuring worker's compensation insurance through Michigan Municipal Worker's Compensation Fund. The Village pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

In addition, the Village carries commercial insurance to cover property and casualty, crime, general liability, errors and omissions, and fidelity bonds.

B. Interest Income and Expense

For the year ended February 29, 2008, total interest/investment income was \$8,299 and there was no interest expense.

C. Sale of Future Revenues

For several years, the Village has sold its rights to delinquent real property tax revenues and related late payment penalties to the Grand Traverse County treasurer. For the 2007 tax roll the District received a lump sum payment of \$12,117 for general operating tax revenues. This amount represents 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Village will have to repay the county.

VILLAGE OF FIFE LAKE, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED FEBRUARY 29, 2008

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 97,250	\$ 97,250	\$ 99,158	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	3,200	3,200	4,913	0	0	0	0	0	0
Federal Grants	0	0	5,613	0	0	0	0	0	0
State Grants	43,000	43,000	44,047	30,000	30,000	29,514	15,000	15,000	16,503
Contributions from Local Units	250	250	262	0	0	0	0	0	0
Interest and Rents	2,750	2,750	3,832	600	600	1,046	10	10	222
Other Revenues	20	20	83	0	0	0	0	0	0
Total Revenues	146,470	146,470	157,908	30,600	30,600	30,560	15,010	15,010	16,725
<u>EXPENDITURES</u>									
Legislative	21,945	20,495	16,309	0	0	0	0	0	0
General Government	47,789	46,019	43,391	0	0	0	0	0	0
Public Works	35,813	36,013	36,867	15,753	23,313	23,313	42,454	46,674	45,689
Community and Economic Development	7,500	6,500	4,787	0	0	0	0	0	0
Recreation and Culture	12,800	14,800	14,759	0	0	0	0	0	0
Other Functions	4,600	4,600	4,511	0	0	0	0	0	0
Total Expenditures	130,447	128,427	120,624	15,753	23,313	23,313	42,454	46,674	45,689
Excess (Deficiency) of Revenues Over Expenditures	16,023	18,043	37,284	14,847	7,287	7,247	(27,444)	(31,664)	(28,964)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In	0	0	0	0	0	0	5,000	5,900	39,600
Transfers Out	(5,000)	(5,900)	(32,100)	0	0	(7,500)	0	0	0
Total Other Financing Sources (Uses)	(5,000)	(5,900)	(32,100)	0	0	(7,500)	5,000	5,900	39,600
Net Change in Fund Balance	11,023	12,143	5,184	14,847	7,287	(253)	(22,444)	(25,764)	10,636
<u>FUND BALANCE</u> - Beginning of Year	140,929	140,929	140,929	63,267	63,267	63,267	4,097	4,097	4,097
<u>FUND BALANCE</u> - End of Year	\$ 151,952	\$ 153,072	\$ 146,113	\$ 78,114	\$ 70,554	\$ 63,014	\$ (18,347)	\$ (21,667)	\$ 14,733

VILLAGE OF FIFE LAKE, MICHIGAN

GENERAL FUND
BALANCE SHEET

FEBRUARY 29, 2008

ASSETS

Cash	
Petty Cash	\$ 100
Checking	94,011
Money Market Account	39,187
Certificates of Deposit	2,313
Taxes Receivable	794
Due From Other Funds	
Major Street Fund	138
Local Street Fund	85
Equipment Fund	5,054
Due From Other Governmental Units	7,162
	<hr/>
TOTAL ASSETS	\$ 148,844
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Payroll Withholdings Payable	\$ 2,052
Accrued Taxes Payable	679
	<hr/>
Total Liabilities	2,731

FUND BALANCE

Unreserved	146,113
	<hr/>

TOTAL LIABILITIES AND FUND BALANCE	\$ 148,844
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VILLAGE OF FIFE LAKE, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 29, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Taxes	\$ 97,250	\$ 99,158
Licenses and Permits	3,200	4,913
Federal Grant	0	5,613
State Grants	43,000	44,047
Contributions From Local Units	250	262
Interest and Rents	2,750	3,832
Other Revenues	20	83
Total Revenues	<u>146,470</u>	<u>157,908</u>
<u>EXPENDITURES</u>		
Legislative	20,495	16,309
General Government	46,019	43,391
Public Works	36,013	36,867
Community and Economic Development	6,500	4,787
Recreation and Cultural	14,800	14,759
Other Functions	4,600	4,511
Total Expenditures	<u>128,427</u>	<u>120,624</u>
Excess of Revenues Over (Under) Expenditures	18,043	37,284
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers Out	<u>(5,900)</u>	<u>(32,100)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	12,143	5,184
<u>FUND BALANCE</u> - Beginning of Year	<u>140,929</u>	<u>140,929</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 153,072</u>	<u>\$ 146,113</u>

VILLAGE OF FIFE LAKE, MICHIGAN

GENERAL FUND
ANALYSIS OF REVENUES

YEAR ENDED FEBRUARY 29, 2008

REVENUES

Taxes

Current Taxes	\$ 98,943	
Penalties and Interest	215	
	<hr/>	
Total Taxes		\$ 99,158

Licenses and Permits

Land Use Permits	250	
Planning and Zoning Fees	250	
Cable T.V. Franchise	4,413	
	<hr/>	
Total Licenses and Permits		4,913

Federal Grant

Transportation Grant		5,613
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State Grants

Sales Tax	40,933	
Telecommunications Right of Way	2,055	
Liquor Licenses	1,059	
	<hr/>	
Total State Grants		44,047

Contributions From Local Units

Parks and Recreation		262
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Interest and Rents

Interest	3,305	
Room Rental	527	
	<hr/>	
Total Interest and Rents		3,832

Other Revenue

Miscellaneous		83
		<hr/>

TOTAL REVENUES		<u>\$ 157,908</u>
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VILLAGE OF FIFE LAKE, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 29, 2008

EXPENDITURES

Legislative

Village Council

Personal Services

Salaries and Wages \$ 6,100

Other Services and Charges

Professional Services 5,122

Printing and Publishing 705

Community Promotion 1,000

Insurance 3,332

Education 50

Total Legislative \$ 16,309

General Government

Clerk's Office

Personal Services

Salaries and Wages \$ 1,080

Village Office

Personal Services

Salaries and Wages 5,787

Supplies

Office Supplies 1,146

Other Services and Charges

Insurance 84

Repairs and Maintenance 709

Contracted Services 1,185

Travel 131

Education 25

Capital Outlay 254 10,401

VILLAGE OF FIFE LAKE, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 29, 2008

Treasurer's Office			
Personal Services			
Salaries and Wages		3,000	
Building and Grounds			
Supplies			
Operating Supplies	1,326		
Other Services and Charges			
Insurance	635		
Repairs and Maintenance	862		
Contracted Services	1,400		
Communication	808		
Utilities	16,589		
Garbage Removal	3,055		
Equipment Rental	5,115		
Capital Outlay	200	29,990	
Total General Government			43,391
Public Works			
Department of Public Works			
Personal Services			
Salaries and Wages		35,222	
Supplies			
Operating Supplies		496	
Other Services and Charges			
Insurance		1,033	
Travel		116	
Total Public Works			36,867
Community and Economic Development			
Planning and Zoning Board			
Personal Services			
Salaries and Wages		4,670	
Other Services and Charges			
Insurance		58	
Professional Services		34	
Education		25	
Total Community and Economic Development			4,787

VILLAGE OF FIFE LAKE, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 29, 2008

Recreation and Cultural

Parks

Supplies

Operating Supplies 3,847

Other Services and Charges

Insurance 132

Repair and Maintenance 301

Contracted Services 801

Equipment Rental 5,553

Miscellaneous - Other 265

Capital Outlay 3,860

Total Recreation and Cultural 14,759

Other Functions

Fringe Benefits

Social Security and Medicare 4,511

TOTAL EXPENDITURES \$ 120,624

OTHER FINANCING USES

Transfers Out

Local Street Fund 32,100

TOTAL EXPENDITURES AND
OTHER FINANCING USES \$ 152,724

VILLAGE OF FIFE LAKE, MICHIGAN

MAJOR STREET FUND
BALANCE SHEET

FEBRUARY 29, 2008

ASSETS

Cash	
Money Market Account	\$ 57,918
Due from Other Governmental Units	5,361
	<hr/>
TOTAL ASSETS	\$ 63,279
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to General Fund	\$ 138
Due to Local Street Fund	127
	<hr/>
TOTAL LIABILITIES	265

FUND BALANCE

Unreserved	63,014
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 63,279
	<hr/> <hr/>

VILLAGE OF FIFE LAKE, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 29, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
State Grants		
Act 51 Distributions	\$ 30,000	\$ 29,514
Interest and Rents		
Interest	<u>600</u>	<u>1,046</u>
Total Revenues	<u>30,600</u>	<u>30,560</u>
<u>EXPENDITURES</u>		
Public Works		
Routine Maintenance		
Personal Services		
Salaries and Wages	1,283	1,226
Employee Benefits	96	92
Supplies		
Materials and Supplies	3,000	3,571
Other Services and Charges		
Equipment Rentals	3,120	3,098
Winter Maintenance		
Personal Services		
Salaries and Wages	3,994	3,972
Employee Benefits	200	295
Supplies		
Materials and Supplies	3,200	3,157
Other Services and Charges		
Equipment Rentals	7,920	7,902
Administration		
Other Services and Charges		
Contracted Services	<u>500</u>	<u>0</u>
Total Expenditures	<u>23,313</u>	<u>23,313</u>
Excess of Revenues Over (Under) Expenditures	7,287	7,247
<u>OTHER FINANCING SOURCES</u>		
Transfers Out		
Local Street Fund	<u>0</u>	<u>(7,500)</u>
Excess of Revenues and Other Sources		
Over (Under) Expenditures	7,287	(253)
<u>FUND BALANCE - Beginning of Year</u>	<u>63,267</u>	<u>63,267</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 70,554</u>	<u>\$ 63,014</u>

VILLAGE OF FIFE LAKE, MICHIGAN

LOCAL STREET FUND
BALANCE SHEET

FEBRUARY 29, 2008

ASSETS

Cash	
Money Market Account	\$ 11,187
Due from Major Street Fund	127
Due from Other Governmental Units	<u>3,504</u>
 TOTAL ASSETS	 \$ <u><u>14,818</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to General Fund	\$ 85
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FUND BALANCE

Unreserved	<u>14,733</u>
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TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>14,818</u></u>
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VILLAGE OF FIFE LAKE, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 29, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
State Grants		
Act 51 Distributions	\$ 15,000	\$ 16,503
Interest and Rents		
Interest	10	222
Total Revenues	<u>15,010</u>	<u>16,725</u>
<u>EXPENDITURES</u>		
Public Works		
Routine Maintenance		
Personal Services		
Salaries and Wages	2,818	1,780
Fringe Benefits	211	118
Supplies		
Operating Supplies	10,000	4,449
Other Services and Charges		
Equipment Rental	7,000	4,275
Winter Maintenance		
Personal Services		
Salaries and Wages	3,420	2,765
Fringe Benefits	255	206
Supplies		
Operating Supplies	4,000	4,735
Other Services and Charges		
Equipment Rental	8,220	8,176
Contracted Services	10,750	19,185
Total Expenditures	<u>46,674</u>	<u>45,689</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(31,664)</u>	<u>(28,964)</u>
<u>OTHER FINANCING SOURCES</u>		
Transfers In		
General Fund	5,900	32,100
Major Street Fund	0	7,500
Total Other Financing Sources	<u>5,900</u>	<u>39,600</u>
Excess of Revenues and Other Sources Over (Under) Expenditures	(25,764)	10,636
<u>FUND BALANCE</u> - Beginning of Year	<u>4,097</u>	<u>4,097</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ (21,667)</u>	<u>\$ 14,733</u>

VILLAGE OF FIFE LAKE, MICHIGAN

EQUIPMENT FUND
STATEMENT OF NET ASSETS

FEBRUARY 29, 2008

ASSETS

CURRENT ASSETS

Cash	
Money Market	\$ 55,826
Certificate of Deposit	64,570
	<hr/>
Total Current Assets	120,396
	<hr/>

CAPITAL ASSETS

Machinery and Equipment	142,695
Less Accumulated Depreciation	(116,574)
	<hr/>
Net Capital Assets	26,121
	<hr/>
TOTAL ASSETS	\$ 146,517
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

LIABILITIES

Due to General Fund	\$ 5,054
	<hr/>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	26,121
Unrestricted	115,342
	<hr/>
Total Net Assets	141,463
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 146,517
	<hr/> <hr/>

VILLAGE OF FIFE LAKE, MICHIGAN

EQUIPMENT FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

YEAR ENDED FEBRUARY 29, 2008

OPERATING REVENUES

Charges for Services	
Equipment Rental	\$ 34,118

OPERATING EXPENSES

Administration and General	
Personal Services	
Salaries and Wages	3,702
Fringe Benefits	134
Other Services and Charges	
Telephone	133
Plant	
Personal Services	
Salaries and Wages	1,296
Other Services and Charges	
Operating Supplies and Repairs	7,111
Insurance	994
Utilities	2,421
Gasoline and Oil	4,578
Miscellaneous	451
Depreciation	8,166
Total Operating Expenses	28,986
Operating Income (Loss)	5,132

NONOPERATING REVENUES (EXPENSES)

Interest Income	3,726
Change in Net Assets	8,858

<u>NET ASSETS</u> - Beginning of Year	132,605
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<u>NET ASSETS</u> - End of Year	\$ 141,463
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VILLAGE OF FIFE LAKE, MICHIGAN

EQUIPMENT FUND
STATEMENT OF CASH FLOWS

YEAR ENDED FEBRUARY 29, 2008

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities:

Cash Received from Interfund Services Provided	\$ 39,172
Cash Payments to Suppliers for Goods and Services	(15,688)
Cash Payments to Employees for Services	<u>(5,132)</u>

Net Cash Provided by Operating Activities	18,352
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Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(14,832)
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Cash Flows from Investing Activities:

Interest on Investments	<u>3,726</u>
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Net Increase in Cash and Cash Equivalents	7,246
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<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>113,150</u>
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<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 120,396</u></u>
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RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	<u>\$ 5,132</u>
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Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:

Depreciation	8,166
Increase (Decrease) in Current Liabilities Due to General Fund	<u>5,054</u>

Total Adjustments	13,220
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<u>Net Cash Provided by Operating Activities</u>	<u><u>\$ 18,352</u></u>
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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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September 26, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Fife Lake, Michigan

We have audited the financial statements of the Village of Fife Lake as of and for the year ended February 29, 2008, and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Fife Lake's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying letter of significant deficiencies, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village in a separate letter dated September 26, 2008.

This report is intended solely for the information and use of management, the Village Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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September 26, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Village Council
Village of Fife Lake
Grand Traverse County
Fife Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Fife Lake for the year ended February 29, 2008, and has issued our report thereon dated September 26, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 26, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Fife Lake are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of the Village of Fife Lake for the year ended February 29, 2008, we noted the following list of items which we feel deserve comment:

Budgeting

The budget was exceeded in certain activities in the General Fund. Although the Village does a great job of budgeting, Act 621 of the Public Acts of 1978 requires amending the budget prior to authorizing expenditures that would cause such overages.

Sales Tax

During our test of controls over cash disbursements, we observed instances of the Village paying sales tax. The Village is exempt from sales tax in most cases, and care should be taken to purchase items sales tax free, where allowed.

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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September 26, 2008

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Village Council
Village of Fife Lake
Grand Traverse County
Fife Lake, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Fife Lake, Grand Traverse County, Fife Lake, Michigan as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Fife Lake's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.